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Marketing Issues and Challenges in Transitional Economies

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Comments Welcome

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Abstract

Drawing both on the literature as well as field research on companies operating in transitional economies, this paper describes the ways in which marketing environments in transitional economies are typically different from those in more developed countries, as well as recent trends in these environments. Managerial implications concerning appropriate marketing strategies and tactics are then drawn both for multinationals operating in transitional economy markets as well as local companies. The paper concludes with some suggestions for further research.

Introduction

The movement towards freer markets in China, Vietnam, the Former Soviet Union, Poland, Hungary, the Czech and Slovak Republics, and others (the so-called "Transitional Economies," or TEs), has led to great interest in the marketing challenges and issues unique to these economies. Some of this interest comes from multinational corporations (MNCs), who see the growth and leadership potential in these emerging markets and have hastened to expand their operations in them (Nakata and Sivakumar 1995). Others are interested in these newly-opened TE markets because of the potential threat they represent to local TE corporations (TECs), as new MNC competitors flood in and take away market demand from these TECs. Some of these observers wish to strengthen these TECs, because strengthening them should contribute to the overall health of these TE economies and thus to the likelihood of success of the fragile economic transition process.

The interest of MNCs in TE markets is easy to understand, because of the attractiveness of these new markets. For example, the household penetration of durables in most of these countries is growing rapidly from very low base levels, and households are rapidly moving up their shopping lists of motorized two-wheelers, TVs, VCRs, air coolers, washing machines and clothes dryers, electric ranges, air-conditioners, and cars. These increases in demand are fueled by rising incomes, increased availability of credit, the "demonstration effects" of expanding television reach, and an increased demand for convenience from two-earner households (Jain 1993, p. 140). China reportedly now accounts for more refrigerator sales every year than the United States, and global appliance manufacturers such as Whirlpool, Bosch-Siemens and Electrolux have all recently expanded their operations there (Appliance Manufacturer 1995). According to *BusinessWeek* (1994), the rate of growth in automobile demand in these economies is twice that in the industrialized countries; Czechs already buy more cars every year than the Swedes.

As mentioned, another reason for this interest in marketing challenges in TEs is the activity of organizations and individuals who wish to promote the commercial and market success of local (domestic) enterprises in TEs, operating in their own domestic markets and/or in overseas (export) markets. One such organization is the Davidson Institute at the University of Michigan Business School, established in 1992 to understand and facilitate the transition of TEs from

command to free-market economies. As part of its mission, the Davidson Institute has for the past four years sent students and faculty to selected enterprises in TEs (both MNCs and TECs) to assist them in improving aspects of their management and marketing operations.

This paper will attempt to document and summarize the marketing issues and challenges in TEs, as they pertain to both locally-based firms (the TECs), as well as MNCs operating in these TE marketing environments. We will draw not only on published literature on these issues but also on a series of unique reports on the marketing issues facing particular firms (both TECs and MNCs), written by the students and faculty teams working for the Davidson Institute. Over the last four years, these teams have performed in-depth field studies of the existing marketing operations and environments of several firms operating in TEs, and their reports on these firms provide a rich source of information and insight into marketing issues and challenges facing them. (Background information on these WDI-affiliated firms is provided in Appendix 1.)

Note that our discussion and review concerning TEs will in some cases extend into issues that pertain to “emerging markets” and “less-developed countries”(LDCs) more generally. TEs were defined in the beginning of this paper as economies moving from planned or command economies to free-market ones. LDCs have in turn been characterized as typically having agrarian economies, low incomes and income growth, poor infrastructures and low capital availability, high illiteracy, high infant mortality and low life expectancy, among other characteristics (Samli and Kaynak 1984). “Emerging Markets,” by one definition, have some momentum and acceleration in their economic growth rates; while they have relatively low levels of per capita incomes, they are moving from a lower to a higher stage of economic development with some degree of success (Nakata and Sivakumar 1995).

Using these characterizations, it would seem that many TEs (like China or Poland) are clearly emerging markets, because of their high growth rates, while some (like Russia) are probably not (see Table 1). Table 1 also shows that many TEs (such as China and Vietnam) are LDCs, while others (like the Czech Republic, Hungary, or Poland) are probably not. Clearly, many emerging market LDCs (such as Brazil, or India) are not TEs in the sense that they are not just beginning to move from planned or command economies into free-markets, but have already had mostly-free market structures for many years.

Thus while there is substantial overlap among the countries called “transitional economies,” LDCs, and “emerging markets,” it is clearly not complete. We will therefore, wherever possible, point out whether a set of comments applies to all TEs, or just to the LDC TEs. Nonetheless, because of the overlap in TEs and emerging markets/LDCs, many aspects of our discussion will apply not only to TEs but to emerging markets/LDCs more generally.

TE Marketing Environment: “Base Conditions”

Any characterization of the marketing environments of TEs must be preceded with two caveats. The first is simply that these economies are changing so rapidly that any description of what their markets look like is very likely to be out-of-date by the time it appears in print. The second, as just discussed above, is that there is obviously great variance across the many markets that are here collectively being called the TEs. It goes without saying that some of these markets are more “advanced” than others, in terms of consumer incomes, average education levels, transportation and logistics infrastructure, the availability of high quality marketing data and human resources, and many other very important market dimensions.

Nevertheless, several common conditions seem to obtain across most of these TEs, though the extent to which any particular condition applies to any particular TE market may vary. Since these are often changing rapidly as a result of recent market and other reforms, these may usefully be thought of “base conditions;” changes in these are discussed separately below. Other authors (e.g. Kaynak 1982) have characterized such conditions along seven dimensions: economic, market, level of technology, general structure of distribution, social, competitive, and legal/political. We prefer a more fine-grained description, and suggest that these “base conditions” for TEs include:

1. Consumer incomes, on a per-capita basis, that are low by Western standards. In “raw” (unadjusted) terms, per-capita incomes are approximately \$500 p.a. in China, \$2-4,000 in the Central/East European countries, compared to \$26,000 in the USA. When adjusted for “purchasing power parity,” they are about \$5-8,000 in Central/Eastern Europe and about \$2,500 in China (see Table 1).

2. Economies that typically have high rates of inflation (10-30% p.a., sometimes even more), foreign trade deficits, high unemployment rates (especially “hidden unemployment, or under-employment), high costs of capital, but low labor costs.

3. The presence of what has often been called a “dual economy” structure (Mahmoud and Rice 1984), with a relatively small elite urban high-income market amidst a relatively much larger subsistence- and low-income market, reflecting a relatively high degree of inequality in the distribution of income and wealth. In some of these countries (such as India), the top 10% of the population earns 30-40% of the income (Jain 1993, p. 74), and this is usually the market segment targeted by MNCs, especially since most of this segment tends to concentrate in major metropolitan areas (Gillespie and Alden 1989).

4. A traditional reliance on high levels of indirect taxation (such as sales and excise duties) for public finance, especially on “luxury” goods, in view of the relatively small amount of tax revenue generated by direct income taxes. This is often accompanied by high import duties and strict foreign exchange controls and non-convertibility (Mahmoud and Rice 1984). Other bureaucratic “hurdles” usually include investment controls, policy reversals, bureaucratic graft, a lack of coordination across government ministries, and customs/import problems.

5. Major differences across metro and non-metro markets, or other geographical disparities. In China, for example, a major income gap exists between the coastal and the inland areas. Some larger TEs, such as the former Soviet Union (FSU) countries, also have a large number of cultural/religious/linguistic segments.

6. A historic tendency for markets to be “sellers markets” (Frazier, Gill and Kale 1989; Shama 1992), with demand exceeding supply, a consequent “price-control” orientation among governments, and a “shortage psychology” among consumers and distribution channel members, with a tendency to buy, hoard, or take advantage of scarce supplies of in-demand goods. TE consumers have frequently received goods through a “lottery-like” system in which scarce goods were distributed to buyers willing to either stand in line or participate in raffles after having prepaid for the item. This was frequently accompanied by the presence of a “black market,” in which goods were available at prices much higher than the official ones (Zurawicki and Becker 1994). Black markets in all kinds of goods and services exist when a shortage of supply combines with government price controls, so that unscrupulous traders hoard the scarce good. This

behavior often leads to price controls, which prompts even more forward-buying behaviors by distributors and retailers (Samlee 1993).

As will be commented on below, this is rapidly changing at present, with supply rapidly catching up with (and in some cases even exceeding) demand. Some researchers claim that because of this "shortage economy" TE consumers in countries such as Russia have little experience with variations in pricing, and thus do not quite know how to factor that into their choice processes (Golden et al. 1995).

7. A historic tendency among local marketers, often protected from foreign and even local competition by various governmental barriers and regulations, to simply take advantage of market shortages and growth, instead of focusing on competing for market share through the development of products and services of higher quality and value. Since production from government-owned manufacturers was guaranteed to find buyers, who had to take whatever little they could get, producers were under no pressure to respond to buyer needs (Kaynak 1982).

8. Limited availability of marketing information, both secondary and primary (Kaynak 1984). Primary data collection is hampered by high non-response rates, a reluctance among consumers to be interviewed, high "yea-saying," very limited telephone access (and thus incomplete sampling frames), and a shortage of trained personnel. Secondary data are limited because of limited government budgets, but several government departments do put out key statistics, such as those on foreign trade, demographics, and industrial production by sector (cf. Demidoff 1993). Walle and Ryans (1992) point out that western companies can sometimes use World Bank "SIA" data, but these are usually qualitative, not timely, and not detailed enough.

9. The great importance of distribution intensity (and a "push" strategy) to any marketing program. This is due particularly to the low levels of literacy and incomes and the consequent inadequate development of channels of mass communication, as well as either the necessity to use existing "fragmented" and "long" distribution channels, or the near-absence of pre-existing distribution channels.

In those markets where distribution channels already exist (as in India), the reasons why they tend to be of this long and fragmented form is both very complex and very important (Bauer 1968; Samee 1993; Mueller, Wenthe and Baron 1993). Consumers in these markets tend to live in geographically dispersed areas, tend not to own cars (and, often, refrigerators, which have a

penetration in China of about 50%), and to have small homes and small incomes. These factors combine to lead to daily, instead of weekly, food shopping trips, and the shopping outlets therefore need to be located very close to where consumers live. In addition, because of their low incomes and therefore high price-orientation, consumers tend to comparison shop across many retail stores before actually buying. Further, the retail sector tends to be an easy avenue of self-employment in these job-scarce economies, leading to more retail outlets than are needed.

Another important reason why these economies have this fragmented and very large distribution network is that these retail outlets typically rely for their inventory financing not on formal banking institutions but instead on distribution intermediaries such as wholesalers and semi-wholesalers, who in turn rely on the marketers themselves for such financing. The length of these channels is thus partly a consequence of the need for each level of the channel to provide financing to the next-lower level, and the inability of any level to finance a large number of large retailers at that lower level. These dispersed and small retail outlets require frequent product deliveries, given their low capital base, and frequent sales force calls. In India, for instance, Hindustan Lever has a company sales force of 400 people directly calling on 220,000 retailers in 3,600 markets, with an additional coverage of 60,000 outlets in 6,500 smaller markets being provided by the sales force of their wholesale stockists (Varadarajan 1984). The lack of capital and of formal credit mechanisms means that these outlets operate on rapid turnover at low margins (often as low as 3-5% at wholesale and 5-10% at retail). Transactions are usually on a cash or consignment basis.

All of these factors lead to the existence of a very large number of independently-owned, small-sized and geographically-dispersed retail outlets, sometimes called "micro-retailing" (Simon-Miller 1984). These retailers are often 20-30% the size of Western retail outlets (Mueller, Wenthe and Baron 1993). There are about 3,000,000 retail outlets in India (Varadarajan 1984). Wedel, a chocolate and candy company in Poland, has over 180,000 "points of retail sale"; and about 1000 wholesalers (Wedel Team Report 1995). Poland has an estimated total of 529,000 retailers and 20,000 wholesalers, according to Business Central Europe (1995). While Western countries often have 50-80% of sales occurring through large chains, such chains typically account for under 10% of retail sales in countries such as Poland (Business Central Europe 1995).

Clearly, these features do lead to system inefficiency, and an inadequate/difficult channel communication infrastructure. The length and fragmentation of these channels--as well as the fact that in supply-scarce economies such as these distributors do not need the manufacturers to create demand--makes it hard for manufacturers to exercise much control, and to get merchandising support and "push."

Many TEs do not have the kind of distribution structure just described. In China and the Visegrad countries, for instance, both domestic and MNC marketers are confronted with a near-absence of existing distribution channels. This is the result of the abandonment of the historical distribution system--in which state-owned manufacturers shipped goods to central distribution facilities owned by the Ministry of Commerce or Trade, and then on to its local/specialized distribution centers--without the compensating growth of new private channels. In China, until 1986, 80% of all goods were covered by the State Planning Commission, which gave companies production goals and allocated raw materials (the so-called *fenpei* system). Once produced, goods were shipped to the three major distribution Centers of the Ministry of Trade (after 1993, called the Ministry of Domestic Trade) at Tianjin, Shanghai, and Guangzhou, from which they flowed to local centers that specialized by product. Such systems were often supplemented by other public sector or state trading companies, and/or by co-operative distribution networks belonging to semi-governmental organizations. All imports were usually channeled through state foreign trade organizations, often specialized by product category. A few large distributors also existed that owed their historical origin to colonial trading companies (Reinganum and Helsell 1994).

An example of the "old" distribution system can be seen in Figure 1, which shows the way in which Dong Feng Motors (DFM), China's biggest truck manufacturer, used to distribute its trucks until recently (DFM Team Report 1994). Obviously, a company compelled to selling exclusively to a Ministry (such as DFM, or any importer) had no need at that time for its own distribution network--and found itself without one when the Ministry network disappeared. An alternative, or supplement, to such Ministry-run channels was the co-operative retail network in some countries.

10. Many of these markets have inadequate physical distribution and logistics infrastructures (Byrne and Jozefowski 1994, Business Central Europe 1995, Reinganum and Helsell 1994). It is especially hard to get to rural and semi-urban areas, which have poor

transportation coverage. The roadway network is often inadequate in reach and size, and heavily congested with traffic, leading to extremely long shipping times. It has been reported that the maximum de-facto speed on China's highways is 40 kmph (25 mph), and that 20% of China's agricultural produce spoils by delivery. This is compounded by the presence of bottlenecks at various internal or external border and customs checkpoints, where graft and inspections slow traffic even further (often by 2-3 days). In China, these difficulties are made worse by the difficulty of shipping goods across provincial borders, which often have incompatible rail and other systems. Freight rates are often high, and there are very limited cold storage transportation facilities. Railway car availability is also often very poor, and rail shipment times large. DFM, for example, frequently found its trucks piled up at its railhead of Shiyen because no rail cars were available to ship them out (DFM Team Report 1994). Port shipping facilities are often primitive, with inadequate container shipping facilities.

There are reports of high crime in every transportation modality: hijackings of trucks on roadways, and of railcars on the railroads, as well as port crime. There is usually a shortage of quality warehousing space at important commercial centers, as well as a shortage of telecom facilities that are needed to coordinate and track product shipments. Some Western companies are attempting to use satellite-based cargo and truck-tracking systems to get around this problem. All of these problems suggest the need for products that have packaging that creates high shelf life and minimizes breakages (Samee 1993).

11. A "gray market" often exists in imported and scarce commodities. Gray markets in imports exist when goods enter the country illegally without the payment of import or other tariffs (such as China's 17% VAT). Mechanisms include misuse of the right to ship duty free, or without customs inspection (often with the connivance of corrupt border officials), or false declarations on customs documents of product quantity, value, or duty categories). Such practices obviously undermine the local sales of legitimately imported or locally-produced or assembled versions of these imported products, and can even harm quality reputations if issues such as product freshness, or after-sales service, are important in that product category (Hewlett-Packard China Team Report 1996).

12. Such TE economies are also often characterized by labor disputes and strong trade unions, as well as labor laws that make it difficult to lay-off workers (Business Week 1994). Parts

and supplies of satisfactory quality are often hard to obtain, and suppliers hard to locate. In one celebrated example, Nestle had to set up its own system in China to buy milk from farmers and physically transport it from the farms to factory collection points (Fortune 1994). Local content legislation is often quite restrictive. These and other factors often profoundly alter manufacturing, sourcing, and site location decisions.

13. The local political and regulatory environment can often be stifling and subject to corruption and/or the importance of personal relationships. China's is famous for its "guanxi" system, in which the extent of one's "connections" can determine the success or failure of ventures (Smart 1993). Having local partners is thus almost always essential to building the necessary contacts and providing "insider access." Regulatory and non-tariff barriers are often used to protect various markets from foreign competition: in the insurance market, it took AIG seventeen years to set up operations in China. The legal system is often under-developed and/or inefficient, and investment protection and other laws are often not in place (Zurawicki and Becker 1994). Laws regarding intellectual property (such as patents and trademarks), in particular, are sometimes not adequately enforced; this has recently led to trade tensions between the U.S. and many countries, notably China (Nakata and Sivakumar 1995).

TE/EE Marketing Environment: Recent Trends

Economic and Regulatory Environment

The key transformation in most TE economies (such as the Czech Republic, Hungary, and Poland) has been substantial enterprise privatization, with majority shares of GDP now coming from the private sector (see Table 1). Inflation rates are mostly down (to 10-20%, or even less), and unemployment is down and stable, though it still remains between 10-15% in some TEs such as Slovakia and Poland. While the reliance on heavy indirect taxation reported earlier has not changed, the import duty and foreign exchange regimes often have. Import duties are coming down because of the GATT/Uruguay Round agreements, while foreign exchange controls are being relaxed as part of market-opening measures mandated by institutions such as the World Bank. Companies that previously could only import goods via State Trading Organizations can now often do so directly.

Market Size

The rapid annual growth of incomes (in the 9-11% range in China, and the 5-8% range in the Visegrad countries—see Table 1) has led in many cases to very high rates of category demand growth, often 10-30% (Jain 1993, p. 140). This is often even greater than the percentage increase in incomes, because the relevant growth rate is not that in average incomes, but in the number of households that exceed a certain threshold income figure (see Figure 2). In this Figure, for instance, it can be seen that an increase in average monthly per-capita incomes of just 16% (from \$225 to \$260) can lead to a near doubling of households that earn \$300 or more per month (the right tail of the income distribution).

A major source of growth in many TEs is the great increase in the number of households and of the ratio of consumers falling into younger age groups. In Vietnam, for instance, 36% of the population in 1994 was under 15 years of age (see Table 2). However, purchasing power is usually significant only in the 30+ age bracket, with the 18-25 age group usually not having significant income (BusinessWeek 1994). In some economies, a second source of growth is rising incomes in the rural or non-metro areas, as consumers in these segments switch from non-branded (bulk) or traditional products to modern or branded ones (Jain 1993, pp. 62-63). This has implications both for MNCs and for TECs, which are discussed later. A third source of growth is the replacement or retro-fitting of older products that are now seen as technologically or stylistically obsolete. This process is sometimes hastened by regulatory change: in Poland, for instance, new environmental regulations (to take full effect by January 1997) has led to many existing owners of boilers deciding to replace or retrofit older, less environmentally friendly boilers, thus creating a huge marketing opportunity for Ahlstrom-Fakop (now Foster-Wheeler Fakop), which uses a “clean-burning” technology (Ahlstrom-Fakop Team Report 1995).

In contrast to this increase in market sizes, however, companies which historically sold to the old FSU have often seen their entire markets wiped out, given the inability of FSU customers to pay in convertible currency (or to pay at all). For instance, the LET aircraft manufacturing Co. of the Czech Republic, which used to sell eighty 19-seater L410 turbo-prop aircraft annually to the FSU (mostly to Aeroflot), saw 90% of its annual demand disappear, and its well-developed reputation for quality and durable products in the FSU become meaningless virtually overnight, when the FSU broke up (LET Team Report 1994). Similarly, Tatra, which makes durable off-

road trucks with air-cooled engines, saw a 73% decline in sales from 1989 to 1993, with the collapse of the FSU (Tatra Team Report 1994).

Consumers

Consumer incomes have been growing rapidly for at least an urban group of middle-class consumers, leading to increased economic mobility. In addition, the increased exposure of consumers to global media, and depictions of western lifestyles in local media, have increased their desires for quality branded goods and services. Several observers have claimed a great increase in the degree of consumer materialism, as consumers in TEs (such as Romania) feel a great need to keep up with the spending habits of neighbors (Belk and Ger 1994). There thus appears to be an increased sensitivity to branding and status needs. Simon-Miller (1984, p. 123) points out that because of the scarcity of many kinds of goods in TEs, even functional goods can become seen as status goods, since their ownership and public display communicates power and prestige.

There has also been an escalation in the expectations of TE consumers regarding the level of quality in the products they buy. Shama (1992) found that Russian consumers were doing more comparative shopping and purchasing better quality and more durable products. Technology and feature/functionality expectations are also rising. In Whirlpool's experience, Chinese consumers buying washing machines, for instance, tend to prefer not the old twin-tub technology but the newer fully automatic machines. Similarly, consumers in most TEs buying refrigerators have shown a willingness to pay for more expensive no-frost refrigerators instead of the older technology (Whirlpool Tatramat/Whirlpool Polska Team Reports 1995). Obviously, different consumer segments exist, but there are signs that many TEs are evolving from a situation where one, low-priced, basic brand was all that was necessary, to situations where two, and even three, levels of quality and price might be warranted in many product-markets.

Consumers are also at a formative stage regarding the formation of brand loyalty, as many of the old traditional local brands are dying out, and many new brands are being launched in the marketplace. In addition, many of the product categories that consumers are buying are new to them, and their low levels of knowledge about these product categories lead them to rely on brand name cues. Many consumers in TEs associate new, foreign products with superior quality (Shama 1992). One study found that buyers of TV sets in Russia, Poland and Hungary perceived sets

made by U.S., Western European and Japanese companies, regardless of brand name and place of assembly, to be of higher quality and preferable to locally-made sets (Ettenson 1993). However, consumers in many cases also appear to have discovered that not all brands with western brand names have high quality (this sometimes happened because the gray market goods they bought were old, etc.), and there have in some cases been reports of a backlash return to local-branded goods. Finally, there are reports of resurgent economic nationalism or chauvinism in some countries, such as Poland (Whirlpool Polska Team Report, 1995).

Competition

Most domestic competitors (formerly, or currently, state-owned enterprises) in TEs tend to be smaller in size, technically backward, overly integrated, and very high cost manufacturers, operating in fragmented industries. Their manufacturing emphasis is usually on low cost production of small levels of output, rather than scale economies (Nakata and Sivakumar 1995). They do tend to have high brand awareness, though not always a reputation for high quality brands. Many traditional local TE manufacturers tend not to be marketing-driven companies, either because they have historically been able to sell whatever they can produce, or because they fatalistically believe that the market is beyond their control (Kaynak 1982). Small entrepreneurial businesses are another type of TE competitor; these tend to cater to small “niche” markets, and tend to be more consumer-oriented. However, they tend to be small in size and impact, and are normally displaced by larger domestic or MNC enterprises after a market develops (Zurawicki and Becker 1994).

In most TEs, in most product categories, there has been a recent influx of MNC competition, from global or regional brands. This influx has been hastened by the usual lowering of tariff barriers, and these brands are either imported, assembled locally from knocked-down components, or manufactured locally (often in joint-venture arrangements). These new competitors usually tend to have much larger global volumes, and thus economies of global scale, as well as higher technical quality standards and more advanced product features. Their larger unit volumes tend to give them lower unit costs, especially in the case of South Korean competitors such as Samsung, Daewoo, Hyundai, and Lucky-Goldstar. What these new competitors tend to

lack in most TE markets, however, are distribution and/or service networks, as well as price levels low enough for the mass market (various Team Reports).

This has led, in many TE markets, to an increasing number of joint ventures or strategic alliances between global and local players, in which the global player provides technology and financial resources, while the local player provides distribution and service networks, and low-cost local manufacturing capacity. The global players, in many cases, are interested in local manufacturing capacity both to serve the local market and as a low-cost manufacturing source for other markets. They need the local players to speed-up their access to such low-cost local manufacturing capacity, as well as for local market knowledge and political access. The local players, in turn, need the global players for technology and quality improvements, as well as for superior marketing “know-how,” to better compete in local markets, as well as to gain market access to foreign markets.

The great increase in the number of foreign competitors (and manufacturing capacity), along with market maturation and increasing consumer expectations, is setting the stage in many markets for a “shake-out” and consolidation among competitors. Those local TECs who fail to hook-up with sophisticated global or regional competitors are under particular danger, unless they alter their business and marketing strategies rapidly. (Some options facing these TECs are discussed later in this paper.)

As noted before, in some cases MNCs end up also competing with gray market versions of their own (and/or competitive) products, sometimes of lower quality but always of lower price, and a strategy to compete with such goods is also often necessary. China Hewlett-Packard, for instance, has decided to manufacture only those products in China which it does not produce anywhere else in the world, so that it does not have to compete in China with its own gray market products from other manufacturing locations (China Hewlett-Packard Team Report 1996).

Product

Given the influx of new competitors into TE markets, these markets have recently seen both a ramping up of technical, quality, and feature standards. Low quality goods/services are historically common in TEs due to low-grade inputs, antiquated production methods and equipment, poor managerial and human capital skills, captive markets offering no incentives to

upgrade quality, and the lack of enforced quality standards within industry and by government bodies (Nakata and Sivakumar 1995). The entry by regional and MNC suppliers usually leads to the introduction of global-quality products and services into TE markets, and raises quality standards throughout.

At the same time, the creation of new manufacturing capacity by these new competitors has led to a change in the old supply:demand imbalance discussed earlier. Where once demand exceeded supply, the situation today is (or will soon be) frequently the reverse, despite the great increase in demand (fueled by increasing incomes, discussed earlier). Some of this increase in supply has come from small entrepreneurs, who have rushed to take advantage of market shortages (Johnson and Loveman 1995).

Price

TE markets appear to have gone through two price phases. In the first phase, when the markets opened up and Western goods flooded in, consumers suddenly saw much higher prices in stores for the Western brands than for their local brands, usually much higher than what local purchasing power levels would warrant (Zurawicki and Becker 1994). Nevertheless, these Western higher-priced brands did still sell (in many cases), because of their higher perceived quality, their import cachet, their appeal to an upper-end elite consumer segment, etc.

In the second, more recent phase, however, the increase in supply capacity just discussed has in many cases led to a price shakeout. For instance, in the telephone switching market in China, Siemen's production facility in Beijing was only able to operate one of their three production lines available, because of insufficient demand, and offered customers their switching equipment for hundreds of thousands of dollars less than the price set by AT&T (AT&T of China Team Report 1994). The price of such equipment in China has dropped by 20%-30% over the last two years.

Despite this shake-out in some cases, however, the prices of western-branded goods still tend to be much higher than the mass-market level, and still tend to be suitable only for the upper-end of most markets. Most smart MNCs, as a consequence, are performing "value-engineering" exercises, trying to squeeze out all costs for product/service features that are not highly valued by local consumers, whose tastes and wants are often different from those of the "home" consumers

for these brands, in an attempt to “set-costs-based-on-price” rather than “price-up-from-cost” (P&G Romania Team Report 1995). Attempts also need to be made to make sourcing and procurement decisions in the most cost-effective manner.

There is also still a major shortage of easily-available credit/installment financing facilities in most TEs. Consumers thus often have to save up the entire purchase amount (often several months salary, for appliances or cars) before they can buy. Some Western banks like Citibank have made the provision of consumer credit in TEs a very profitable part of their business (Forbes 1996), and manufacturers like Whirlpool have also begun to expand the TE operations of their consumer finance subsidiaries (Whirlpool Tatramat/Whirlpool Polska Team Report 1995). Clearly, the provision of such consumer credit can be a major competitive tool in such TEs.

Finally, there are some indications that TE consumers have begun to learn that initial product prices (and/or brand name, or country-of-origin) may not be an adequate decision-making criterion. In some cases, consumers have had performance problems with imported products, such as certain durables (Whirlpool Tatramat Team Report 1995). This has led to the consumer realization that after-sales networks, and warranties, are also important, in addition to initial price.

Distribution

In those TE markets where almost no private distribution systems existed, such systems are now growing rapidly. In China, those outlets that previously served as local distribution centers of the Ministry of Trade or Commerce have evolved into independent distributors or retailers, with their own warehouses, trucks, etc., contracting independently with manufacturers or other wholesalers. Factories that previously could only distribute through the Ministry distribution networks are now usually free to distribute their goods directly through any channel they choose, with possibly only a small portion reserved for government use or distribution (especially in the case of products with a national security need) (DFM Team Report 1994). Large department stores (such as Beijing’s People’s Central Store #1) have begun to act as distribution centers for various suppliers, in addition to acting as retailers for them (Reinganum and Helsell 1994).

The retail sector in China now consists of about 9.2 million very small (one-and-two person) retail shops, of which about 7.8 million are privately owned; about 290,000 state-owned

retail enterprises, mainly department stores, accounting for 41% of retail sales; and about 1.2 million collectively-owned enterprises, averaging six persons per venture and accounting for 28% of retail sales (Harvard Business School case 1995). The wholesale distribution system in China is still predominantly government-run, however, and consists essentially of warehouses segmented into regional, county, and township units, each level supplying the ones below according to decisions made at the top. Foreign companies are not allowed to enter the wholesale sector. Imports can now usually be made directly by authorized importers, instead of having to go through state trading firms. Trade fairs are often an important venue for buyers and sellers to meet each other.

In those markets where private distribution systems did exist, in the long-and-fragmented form described earlier, there are signs of consolidation at both the retail and wholesale levels. This is leading to increases in average size of retailer and of distributor, in the degree of concentration, in specialization, and in efficiency, and a decrease in channel length (Samli 1993). Retailers are getting better training, are offering more retail services, including retail credit, and doing better merchandising (Dannhaeuser 1987). Larger stores now often compete on assortment and price, using their economies of scale, while smaller ones--often part of the "informal sector," such as open-air stalls--compete on convenience (Mueller, Wenthe, and Peter 1993). There is a limit to how big these large stores can get in TEs, however. Retail historians have argued that for self-service supermarkets to grow, there needs to be an increase in average per-store volume, in consumer literacy, in labor costs, in the acceptance of fixed prices (instead of the traditional haggling), and in the growth of packaged (instead of bulk) goods. These factors are quite likely to emerge sometime in TEs, but not very soon.

As an example of such consolidation, Mueller, Wenthe and Baron (1993) have reported on the changes occurring in Hungary in the food industry distribution system. The "old" distribution system consisted of a geographic monopoly--one vertically-integrated wholesaler in each of eleven geographical regions--each selling to many retailers, including state-owned retail chains and co-operative networks. The "new" system is vastly different. There are now thirty independent wholesalers, each covering the entire country. New "cash-and-carry" and discount wholesaling channels have also emerged, to service smaller retailers who do not have order quantities large enough to justify direct delivery. The state-owned retail chains are being broken

up, sold as individual stores. There are many more private food retailers than before, including retail chains with 100+ stores in Budapest, that offer better customer service than smaller stores, including longer hours. These obviously have tremendous buying power with manufacturers, and deal directly with them, bypassing wholesalers.

There are also signs of international consolidation: retail giants such as Carrefour and Walmart are expanding into TEs (in South America, and in China), and global marketers such as P&G and Whirlpool increasingly have to offer them products at similar prices and terms in all their locations. Not surprisingly, such global retail consolidation is moving negotiating power into the retailers' hands.

As these distribution channels evolve, both MNCs and TECs are modifying their own distribution systems to take advantage of these opportunities, and these company systems are therefore often in a state of transition and flux, with new channels sometimes grafted-on to older ones in an ad hoc manner. For instance, in China, the truck manufacturer Dong Feng Motors now has the distribution system shown in Figure 3, in which portions of its output are distributed through 13 subsidiaries, 53 partially-owned exclusive dealers, 1147 non-exclusive dealers, and 327 service stations. DFM has 30 non-exclusive dealers in its "factory town" of Shiyang itself (population 400,000), leading to inevitable price warfare among retailers (DFM Team Report 1994). Importantly, the growth in TEC distribution networks is apparently much more pronounced in consumer goods businesses than in industrial goods and certain specialized sectors (Avrora Team Report 1995).

MNCs have often been at the vanguard of creating or improving distribution networks. P&G, for example, has set up van sales representative visits to smaller retail outlets, as well as initiated cash-and-carry availability in Romania (Interbrands Team Report 1995), while Coca-Cola has reportedly invested huge sums to set up direct weekly truck distribution to 20-25,000 stores and kiosks in numerous TE countries, including Romania, with new fleets of trucks and drivers making deliveries to them once or twice a week (International Herald Tribune 1995). Some other MNCs (such as the clothing company Benetton) have chosen to set up their own retail stores, but this is obviously only feasible where only the geographically-concentrated urban/metro market is being targeted.

The options facing MNCs usually include:

a/ going via one, or very few, national distributors (such as Polbita in Poland, which has 22 warehouses and reaches 25,000 retail outlets, and makes money by demanding 90 day credit from manufacturers while extending only 14 day credit to its retail customers) (Mueller and Broderick 1995);

b/ selling to many (e.g., 200-400) wholesalers, on a cash or other basis;

c/ setting up exclusive distributors/wholesalers on a regional basis;

d/ direct distribution (as in the case of Coca-Cola and some snack and candy/confectionary companies); or

e/ owning or franchising own retail stores (such as Benetton).

Any company (TEC or MNC) seeking to create or expand a distribution network is faced with difficulties in locating and evaluating distributors (usually on the basis of capital, expertise, location, and talent), and in controlling and motivating them (given the uncertain legal enforceability of distribution contracts/agreements). Given the difficulty of obtaining market information and of locating suitable distributors (in terms of capital, expertise, entrepreneurial flair, and good location), MNCs have not surprisingly made some poor selection decisions (Zurawicki and Becker 1994). Most MNCs still have limited distribution; this is one area where local firms still have an advantage. In some cases, such as China, MNCs are prohibited from entering the wholesale distribution business.

Clearly, these still-evolving distribution systems in TEs can be inefficient in various ways, and various problems and bottlenecks remain. Thus, substantial potential exists for improving them. These include the growth of institutions to provide credit and liquidity to retailers and consumers, as well as dismantling barriers to the free trade of goods across provincial borders, notably in China. Payment liquidity is also a major issue in China that needs resolution, with the existence of “triangular debt,” in which firm A owes firm B which owes firm C, which owes firm A, with none of these having the liquidity to pay its creditors (or suppliers). As a result of such problems, goods are often sold on a 20% down, 80% consignment basis, or on very long (such as 50 days) extended payment terms (Reinganum and Helsell 1994). In Russia, distribution networks often have strong links to organized crime (Wall Street Journal 1995).

Infrastructure

Most of the TEs have reported plans to improve their transportation infrastructure (railroads, roadways, port shipping, etc.), as well as their telecommunication facilities. Poland, for instance, intends to invest almost \$8bn. in a 2,600 km network of toll motorways (Business Central Europe 1995). China's goal is to develop an integrated system of highways within the next 10 years; this may be unrealistic, however, and provincial protectionism still remains a barrier to free movement of goods in that country (Reinganum and Helsell 1994).

Improvements are also occurring in marketing infrastructure. While shortages still persist in the availability of high-quality information and managerial talent, many Western suppliers have now started operations in TEs, often with local partners, and Western-affiliated advertising and market research agencies are usually available (Shipley et al. 1995). Both Gallup and the Survey Research Group, for instance, now conduct research in China (Marketing News 1994). Nevertheless, this is limited in extent, and these services are usually unaffordable for smaller domestic enterprises. Substantial gaps still remain, such as in the case of direct marketing information and skills.

Promotions

The amount of advertising spending in TEs has skyrocketed from very low initial levels, though reliable figures are hard to come by (Terpstra and Sarathy 1994). The growth in spending is fueled mostly by MNCs, who have a resource advantage of "deep pockets," but local firms have also greatly increased their spending in an attempt to keep up and be competitive. Such high levels of advertising spending are especially important at a time when markets are growing so fast and so many new consumers are entering the market.

In terms of media reach, there has been a great increase in TV viewership, including satellite-based and cable-fed global, regional, and local channels. Ninety-one percent of urban Chinese households now own television sets (Harvard case 1995). Illiteracy and limited media reach are still problems in rural areas, however, and point-of-sale, cinema, and outdoor media are thus still very important in many markets, as are sponsorships (e.g. of sports events), and trade fairs. Public relations can be especially important in building low-cost awareness, and in

establishing local credibility for MNCs. Cost-efficient media placement is still a problem in many TEs, however, because of the scarcity of reliable audience data.

Enterprises in TEs have little experience with planned sales promotions, and frequently slash prices very deeply when inventories pile up (Zurawicki and Becker 1994). Couponing and sample promotion are rarely practiced, and are even legally prohibited in some TE markets. However, MNCs are often the sources of innovative practices in this area. Whirlpool, for example, uses discounts, co-op advertising and lotteries (sweepstakes) to increase trade partner motivation in Slovakia, as well as consumer promotions such as free installation offers and lotteries (including one targeting newlyweds who can win furniture for their apartments if they purchase a refrigerator) (Whirlpool Tatramat Team Report 1995).

Managerial Implications: MNCs

Product

In their rush to expand and grow their TE businesses, most MNCs have thus far aimed at the higher-end segment of consumers. However, to truly take advantage of the demand in TE markets, MNCs need to also compete in the mid-range segment, if not the low-end. Clearly, this will call for product development and modification that strips out of their existing higher-end models those features—with corresponding costs—that are not highly valued by this middle segment. The key imperative for MNCs on the product end, therefore, is to adapt their products to better meet basic needs in TEs. For instance, cars meant for TE markets need to be designed with heavier suspensions, in smaller sizes, without fancy features, and with the ability to use gasohol or leaded gasoline (BusinessWeek 1994). As an example, the 5-ton trucks made in China by Dong Feng Motor are very successful there simply because they exceed local market expectations on a most vital “low-end” feature—they were actually capable of carrying more than a 5-ton payload, which cargo-carrying customers found very useful (DFM Team Report 1994).

The WDI field research brought to light various examples of MNCs that had not, at least initially, done this “stripping-down.” AT&T, for example, found that its world-class 5ESS-2000 telephone switching equipment in China was over-priced in the Chinese market, largely because of a software component that was far too sophisticated for local buyer needs but one that the parent

company had sunk huge costs into, and therefore wished to recover through pricing (AT&T China Team Report 1994). A boiler company in Poland, Ahlstrom-Fakop, found that its environmentally-superior circulating fluidized boilers were too expensive for local utilities, who did not at that time feel compelled to pay the extra amount for that feature (Ahlstrom-Fakop Team Report 1994). Whirlpool's microwave ovens, when first sold in Hungary and Poland, were chock-full of little-used features that raised its price above levels affordable to the local market, especially given low-end South Korean entries. Whirlpool eventually moved to a cheaper production source in China for its Central/East European microwave supplies. Such product re-design is often done more easily in non-US, "third world" locations. MNCs (and TECs as well) often find local market research facilities and organizations to be inadequate, however, and have to develop internal procedures for obtaining reliable consumer feedback on new product concepts, etc.

A second product imperative for MNCs is that products sold in TEs must be those that are exceedingly reliable, and need less servicing (Simon-Miller 1984, p. 123). Two WDI companies that had high local market demand, at least initially, were LET aircraft and Tatra trucks, both of the Czech Republic, that had carved out market niches in the former FSU with aircraft and trucks, respectively, that were very suitable for rugged operating and climatic conditions. LET's L-410 aircraft could take off from and land on from short and unpaved runways, and withstand very high and very cool temperatures, require low maintenance, and provide low operating costs (LET Team Report 1993). Tatra's air-cooled trucks could operate better than water-cooled ones at extreme temperatures, and the absence of a radiator system made the engine less prone to damage during rugged off-road use, making Tatra trucks renowned for their performance in severe climatic regions such as desert and Arctic areas (Tatra Team Report 1994). MNCs therefore need to design their products with TE operating conditions in mind. Appliance manufacturers, for instance, would do well to design their products with an ability to withstand voltage fluctuations and to be very energy-efficient.

The need to design "stripped down" and "tough" products for TEs should not be taken to mean that MNCs need to compromise on basic quality standards. Indeed, a key opportunity for MNCs is to gain "first mover" advantages by being the first to offer high-quality products and

services that stand out in a sea of low-grade offerings, and that meet market needs for consistency and reliability (Nakata and Sivakumar 1995).

Finally, where the MNC products are being assembled in TE markets from components imported from outside manufacturing sources, the parts should be designed to be assembled easily, in conditions where a high degree of quality control and high productivity may not be possible, though efforts to get them are obviously necessary (BusinessWeek 1994). As noted earlier, strict local content regulations may also apply. Such local assembly might also, in some cases, diminish the product's "manufactured overseas" cachet, and thus lower the price premium that can be commanded in the local market. AT&T found this to be the case in the Chinese telephone switching market.

One other product-related issue facing many MNCs (as well as TECs) is the inability to forecast production volumes accurately in such fast-growing markets, leading to very low forecast accuracy and consequently frequent out-of-stock or excess inventory situations. Whirlpool recently found its "3-month-out" forecasts in the Visegrad region were not accurate enough (Whirlpool Polska Team Report 1995).

Price

The fact that average consumer incomes in TEs are relatively low has already been mentioned. Not surprisingly, this leads to a great degree of price-sensitivity (Simon-Miller 1984, p. 124), and demand for lower-priced products is consequently very high (Vachani 1990). MNCs thus need to create value-priced versions of their products that allow them to better meet these lower price points, through stripping out features and "value-engineering" their products and services to cut out costs that are unnecessary for local consumers (such as high-tech gadgets in cars). The exception to the need to launch more price-competitive products is for cases where a "status" good is involved (Simon-Miller 1984).

AT&T, for example, found that it could sell its telephone switching equipment better if it took out its high-cost software component that was not adding enough locally-perceived value. Whirlpool found that it had to come out with a lower-features and lower-cost Ignis brand in Central/Eastern Europe, priced below its initial Whirlpool-branded launch, to be adequately competitive at mass-market price points. Obviously, one way for MNCs to be able to price their

TE models/products low is to take advantage of economies-of-global-scale, by designing and marketing these products on a global basis, using modular designs where feasible (Henley 1968). In addition, all kinds of costs need to be cut, including distribution and overhead.

In addition to lowering the unit prices of their products, MNCs also need to increase the affordability of their products by making possible affordable installment financing and leasing arrangements, to lower the amount of money needed by consumers at the time of purchase. As mentioned, the existing banking systems in TEs do not at this time (in many cases) provide such facilities or, where they do, do not sometimes consider some MNC customers to be good credit risks. The appliance manufacturer Whirlpool, for instance, is greatly expanding the global reach of its Whirlpool Finance Corporation consumer financing operations. The scarcity of local credit information can often be overcome by using innovative tactics, such as by offering credit to employees of reputed companies (Whirlpool Tatramat/Whirlpool Polska Team Report 1995). AT&T has found that it needs to provide customers with financing facilities in order to sell its telephone switching equipment in China.

In the consumer packaged goods area, one way to reduce the amount of cash needed by a consumer at the point of purchase is to reduce the size of the package, to lower the per-unit price. Many low-income consumers in these countries, many of whom are paid daily wages and thus have very high “cash flow” needs, can often not afford the unit prices of standard (in the West) pack sizes. P&G (and Lever Brothers) have both been very successful in increasing the sales of their shampoos in India and China by marketing them in single-use sachets, with each sachet priced at a very affordable unit price. This followed the realization that the source of future growth was going to be not an increase in market share but rather in market size, by attracting new users to the shampoo category from those lower income and more rural consumers who would otherwise have used more traditional, and cheaper, hair care products. By making available low-unit-price single use shampoo sachets, both companies succeeded in getting these consumers to use modern shampoos once or twice a year, on special occasions (such as weddings), hopefully on the way to using shampoos more regularly. This strategy of marketing single-use packets, it should be noted, was followed earlier in these TE markets by companies marketing tea, coffee, and similar products.

It should be remembered that the way to market price-competitive products in TEs is not only to lower unit prices, but also to add “perceived value” in other ways. For example, MNCs might find it possible to offer highly-valued warranties or extended service arrangements as part of their product offerings, thus adding to their perceived value and compensating, to some degree, for higher prices. Such warranties might be highly valued by local consumers who have experienced poor quality in previously-purchased local goods—buyers in TEs have traditionally had to deal with manufacturers who intentionally shortchange on volume, dilute product, or violate other quality standards (Nakata and Sivakumar 1995). In addition, such warranties are crucial in “signaling” reliability in cases where the local after-sales networks of the MNCs might be small and thus a cause for concern to local consumers. In some other cases, raising “perceived value” might require an educational effort, where consumers are told how a brand’s “extra” features raise revenue and/or lower lifetime system cost: AT&T found the need to do this in China, for the software component of its telephone switching equipment (AT&T China Team Report 1994).

Having said that, however, it should be repeated that lowering unit prices should really be the first priority for MNCs, and “unbundling” features and services is probably the more successful approach. Thus, if extended warranties are offered, they should probably be offered as extra-cost options, rather than as part of the basic unit’s price.

Communications

High levels of mass communication are very important in TEs: markets are growing rapidly, the level of competition is intense, many new consumers are becoming first-time purchasers in many product categories and are seeking basic product information, and long-lasting brand loyalties are being formed. Research has shown that pioneering brands often become “de facto standards” in their product categories, and become very hard to dislodge because of their “reputational advantages” (Carpenter and Nakamoto 1989). Thus spending levels for mass communications (as a percent of sales) need to be higher in TEs than in more mature and slower-growing western markets. The low level of advertising clutter in most of these TEs presents an opportunity to MNCs to build long-lasting reputational effects (Nakata and Sivakumar 1995).

Since the individual brands being marketed may be starting from very low-awareness positions, and since the marketing MNC may wish to introduce additional brands down the road, it might be advisable (or more efficient) to supplement the building-up of individual brands with the building-up of the corporate brand as well. Procter and Gamble, for instance, found the need in Romania to make customers aware that it was the company behind the individual brands, through advertising and P-O-S communications (Interbrands Team Report 1995). This is something the company does not do in the United States.

In creating mass communications for their TE markets, MNCs need obviously to be conscious of local variations in what benefits are desired, as well as of cultural, social, political, and religious sensitivities (which might even vary across cultural/ethnic segments within a country). These might call for adaptation in advertising, packaging, and brand names. P&G, for example, found that consumers in some Eastern European markets laughed at the “shampoo-and-conditioning” benefits of its “Wash and Go” shampoo, because few consumers used (and were thus seeking) conditioners after their shampoo use. Further, P&G found that consumers in Romania found the candid discussion of feminine hygiene needs in their TV commercials for Always products to be disconcerting and offensive (Interbrands Team Report 1995). Other companies have found that it is sometimes better to downplay the foreign origin of their products, because local consumers may prefer to buy locally-sourced products, out of a sense of national pride (this was the case for Ahlstrom-Fakop boilers in Poland). The public visibility of local chief executives, as well as other public relations and advertising programs, can help to create such a “local image,” when necessary.

Companies also need to be aware of differences in family decision making roles and customs: communications aimed at females in one culture ought to be aimed at males in more traditional male-dominated cultures; old age might be more respected than youth; the role of children in decision-making or shopping might be minimal. Some TEs (such as China, or India, or Vietnam) also have non-Western religions and cultures, which may require a special level of sensitivity (Mahmoud and Rice 1984).

Of particular importance is the difference in product category penetration, and thus in consumer knowledge levels, across western and TE markets. Since consumers in TEs typically are more consciously shopping for quality goods (having had poor experiences in the past with low-

quality domestic goods), and since they are in most cases unfamiliar with product category attributes and benefits, as well as with the plethora of new brands, they may well be more responsive to factual, informative communication campaigns than to the image-intensive advertising suitable to more developed parity markets in the West (Simon-Miller 1984). Indeed, such consumer desires for product information also lends itself to influence tactics at the point of purchase, such as by retail salespeople.

Low literacy levels in some TEs—adult female literacy is only about 38% in China, 50% in India, though much higher in Eastern/Central Europe—create the need for less text, and more pictorial content, on product packages and in print mass communications, as well as requiring the use of broadcast media (with their audio-visual content) in preference to print media. Print media might also be preferable if the advertising strategy is to give substantial category and brand information, as just discussed. Direct mail and telemarketing infrastructures are often poor in many TEs, limiting their use.

The choice of media, in fact, is much more complicated in TEs. Not only is there much less reliable media/audience data, but many of the most appropriate media are non-traditional or fragmented, such as transit and city posters, point-of-sale, movie theater commercials, rural vans, and even the press (Mahmoud and Rice 1984). Public relations and publicity are often much cheaper and more effective ways to create brand awareness and credible quality reputations, as are attempts to harness and generate positive word-of-mouth from visible opinion leaders (Simon-Miller 1984, p. 124).

Trade and consumer promotions might be especially valuable in TEs, given that consumers traditionally are used to bargaining and haggling behaviors at retailers, instead of buying at fixed prices. Trade promotions might help overcome a reluctance by space-constrained distributors and retailers to carry new products (Samli 1993). They might also be very useful in incentivizing trade channel members, especially if the stores are personally-owned. They are often vital to getting merchandising support, such as window displays. Incentives for retail sales people, for instance, might be especially helpful in “closing” sales, while consumer promotions might help consumers feel like “smart shoppers.” Some of the sales promotions practices of Whirlpool in Slovakia were described earlier. It should be noted, however, that the sales promotion infrastructure in TEs is often very limited, and that their use is often restricted by government regulations.

Channels and Dealers

MNCs need, first of all, to expand the reach of their distribution channels in TEs, to go beyond the major metro areas. As mentioned, many MNCs are pioneering in the creation of such channels, mostly in the consumer packaged goods area. In Romania, for instance, P&G is investing in establishing many more sub-distributors, to reach the counties where it did not have a significant distribution presence with its existing distributors, as well as in building up its “cash-and-carry” and “van distribution” methods of operation, designed to serve smaller and more remote retail outlets (Interbrands Team Report 1995).

There needs to be a parallel effort, however, to make distribution systems in TEs far more cost-efficient, because wringing excess costs out of distribution are one way in which MNCs can bring down the unit prices of their products and services. Many companies are thus investigating ways of increasing the cost-efficiency of their channels. Wedel, Poland’s major chocolate and candy company, is investigating ways to cut down its number of dealers, concentrating on those dealers that are more important to its business (Wedel Team Report 1995). P&G, in Romania as well as other markets, is developing ways to lower the costs of its van sales and cash-and-carry sales operations that service lower-volume dealers.

Such cost-efficient channels can be one source of cost advantage for MNCs who are competing with local competitors with more traditional channels. In some TEs such as India, the traditional distribution channels used by TECs and existing MNCs are already very “lean-and-mean,” operating on very low levels of overhead and margins. Nevertheless, the huge numbers of outlets and channels, combined with the high fragmentation and low levels of concentration, mean that economies of scale are not used to lower costs, a situation made worse by the virtual non-use of information technology. Thus great potential exists for cost reduction.

In addition to expanding the effectiveness (reach) and cost-efficiency of their distribution channels, MNCs must often innovate in ways to provide credit and inventory financing for their distribution channels, since traditional banking institutions often do not exist to meet this need. The credit terms necessary in TEs often need to be more liberal and flexible than in the MNCs home markets.

MNCs (and TECs as well) also need to design ways to make distribution channels work more effectively in terms of providing better and timely market information to the manufacturer,

including better quality sales forecasts. Incentives for such information should supplement the usual ones for higher sales quantities. These are necessary because few manufacturers in TECs treat their distribution channels as partners; instead, an adversarial relationship often exists between manufacturers and distributors/retailers. Mechanisms need to be created to create true partnership between manufacturers and dealers, including better joint promotion planning (Centertel Team Report 1995). In addition to incentive systems, partnership-building mechanisms include dealer contests and conferences, as well as basic relationship-building (especially important in China). Depending on the nature of the product category, MNCs may also need to invest more in dealer training, especially if after-sales service is involved, as in the appliance business.

A very important issue facing many MNCs is that of creating a single sales and distribution system to service the multiple JVs or manufacturing units that may exist in one TE market. In China, for example, AT&T and Whirlpool both have multiple JVs, for different product lines, that nonetheless sell to the same customer (dealer or end-user). These different JVs naturally each start out with their own sales and distribution infrastructures, as created by the original local partner before the JV was created. While it is clearly conceptually better to unify these disparate organizations into one, so that the dealer or end-customer has to deal with just one company sales person, one ordering and invoicing system, etc., the practical implementation issues in such integration are many and complex. These include working out mutually satisfactory cost-sharing arrangements, information technology issues, etc. (AT&T China Team Report 1994; Whirlpool China Team Report 1995).

Managerial Implications: TECs

Start/Improve Distribution

Paradoxically, TECs are often in even greater need of assistance in creating distribution systems in TEs than are MNCs, because while the MNCs often have great experience with creating and managing such systems, TECs have none. Such TECs have historically simply sold their goods to government Ministry channels, which have now totally evaporated, leaving the TECs to start distribution systems from scratch. Many TECs (such as Glasunion and DFM)

simply expect customers to pick up their goods from the factory (Team Reports 1994). TECs thus need to locate potential distributors, evaluate them, contract with them, and motivate, manage, and control them, once a relationship starts.

For some TECs (such as LET) the issue is more one of starting an export business and reaching overseas markets, with the consequent complication of finding the resources to be able to set up foreign distribution networks and conduct foreign sales trips (LET Team Report 1993).

It should be noted that the markets most suitable for TEC penetration might in many cases not be Western markets, where high quality and high technology are often market norms, but instead be markets in other developing countries, where low price and a lower level of technology and quality are most desirable to consumers. Since TECs often possess relatively low technology capabilities, but also have relatively low manufacturing costs, this seems the obvious market selection criterion for them. LET, for example, is finding some success marketing its rugged L410 aircraft in countries such as Bolivia, India, South Africa, etc. These and similar markets are suitable because the L410 aircraft can operate in extreme climates and unpaved, short runways; because it is cheap; and because such markets do not require FAA certification, which LET is still in the process of acquiring (LET Team Report 1993).

In some cases, the “market” needed by these cash-strapped and nearly-bankrupt TECs is not one for finished products, but for sub-contracting work. The Czech LET aircraft company, for instance, now gets 30% of its revenue from sub-contracting contracts from various companies. Some of these are not paid for in cash, but in parts for LET’s own aircraft. Identifying opportunities for such sub-contracting work is done in mostly “ad hoc” ways, such as prospecting sales visits and meetings, rather through a systematic communications program (LET Team Report 1994).

Fighting “Global Brands”

Given the recent entry of MNC brands into TE markets, clearly the most important challenge facing many TECs is to successfully fight these global competitors. While the global brands have advantages of global scale and therefore lower production and marketing costs and often more advanced technology, they can potentially be “out-localized” by local competitors who design their products and communications to better suit local conditions and needs.

MNCs usually tend to minimize the number of product changes to “home country” products before launching them in LDCs (Hill and Still 1984). Local TE consumers, especially those in non-metro areas or non-elite segments, may have attribute or benefit needs different from those emphasized by MNCs in their globally-standardized products, and may have communication and packaging preferences to which MNCs are inadequately sensitive. In consumer packaged goods, for instance, there often exist consumer segments desiring more “local” or “traditional” (e.g., herbal) ingredients and formulations. TECs therefore need to find ways to “out-localize” their global competitors in these and other ways. This may, but need not, mean identifying market niches or segments where TECs possess some kind of competitive advantage over MNCs, either in distribution, after-sales networks, technology, consumer insight, or some other kind--such as aiming at rural or more “basic” markets. TECs might then be able to target these markets with products designed with more “basic” or “localized” formulations or functionalities, at lower prices, taking advantage of regulatory advantages wherever possible (e.g., lower excise tax rates for smaller enterprises). In India, for example, many TEC brands (such as Nirma washing powder) have successfully used such strategies to defend market share from MNCs (cf. Vachani 1990).

In addition, of course, TECs need to find ways to compete with the global players in technology, quality, and cost, through product and process improvements--and scale. Many of these local competitors have historically competed in many diverse businesses, to take advantage of local market opportunities, but this has often led to low-scale production in each of these many businesses. Such competitors need to withdraw from some of these businesses, competing in only a few, where they can expand their volume of production and take advantages of economies of scale and scope.

Another area in which TECs need to invest is branding investments: in advertising, packaging, product design, and other areas that will give their brands the same quality reputations, awareness levels, and preference-forming brand associations that will enable them to compete with the global brands that often come with such strong brand reputations. One accompaniment of opening markets in TEs is a consumer preference for brands that symbolize new, Western, values and lifestyles, not the old lifestyle regimes of the past. Old local brands that fail to contemporize their brand imagery risk losing out over time to brands that appear fresher and more exciting. Obviously, such branding investments take time to pay off, and TECs need to

find both the cash and the patience to make such long-term investments. Since such branding investments are expensive, TECs need to prune their brands, concentrating their investments on those few brands that have the potential to become the “mega-brands” of the future, extendible and leverageable into other product categories.

Pruning SKUs in product lines may also be necessary, for it allows management time and resources to be devoted to only the more important items, providing efficiencies in manufacturing, inventories, and field selling. Wedel, for example, embarked on a program to cut its SKUs by 50%, after finding that keeping minor and slow-selling SKUs on its books led to manufacturing and inventory problems (Wedel Team Report 1995).

Improve Marketing Competencies

Perhaps the most fundamental challenge facing TECs, however, is simply improving their basic marketing competencies, in terms of structure, systems and processes, organizational culture, and human resources. Organizations such as WDI training managers from TECs need to focus on these issues in designing their education programs. WDI field research has identified the following frequently-occurring issues as being ones where TEC managers need skill improvement:

1. Fundamental skills at formulating marketing strategy: Research and analysis to identify customer segments, and their own strengths and weaknesses versus the competition, leading to the identification of which customer segments to pursue, with which product configurations, with what value-propositions.

2. Knowledge of overseas markets. TECs that exported goods previously used to do so through state trading companies (such as OMNIPOL in the case of LET Aero), which were responsible for procuring orders and passing them on to the TEC. As a result, the TEC usually gained no direct experience in marketing its goods overseas. Today, therefore, with the state trading companies playing a diminished role (or none at all), the TEC is often in a position where it desperately needs to get orders from overseas markets, but lacks the skills and confidence to do so.

3. The building up of skills involving barter and countertrade, and in leasing and long-term customer financing, as they build markets among cash-strapped third-world and FSU companies. LET, for instance, has found itself trading oil, wood, bearings, cotton, aluminum, and caviar--as

well as parts such as batteries, oxygen bottles, and bearings—for spare parts for its L410 aircraft. Since dealing through specialized barter companies means giving up 3-7% of the exchange price as commission, LET attempts to arrange these barter deals in-house (LET Team Reports 1993, 1994).

4. Creating, Managing, Motivating, and Controlling Distribution Channels and Sales Forces. This issue has been dealt with at length earlier: TECs often face problems identifying and setting up distributors because of their lack of local market knowledge, their inexperience, their lack of local market reputation (and hence low “consumer pull”). Related to this is a lack of knowledge of methods that are better able to incentivize sales forces.

5. The need to improve sales forecasting systems and skills. This is necessary because TECs previously simply produced to Ministry requirements and schedules, and now face the need to forecast accurately and often, often with poor market information and poor information systems. Not surprisingly, TECs often determine their production schedules for individual products without much market information, and the manufactured product mix is therefore often out of synch with market demand. This can lead to very low “fill rates”, and very high “out-of-stocks” rates (Wedel Team Report 1995). Such TECs apparently need to invest in better information systems and in better current market information, as well as in building-in more accountability for forecasts, among sales personnel as well as distributors. In addition, more coordination is often called for within the company (between marketing, sales and logistics departments) and between the company and its distributors, which often do not meet frequently enough (DFM, for instance, apparently meets just once a year with its distributors, and never updates forecasts made at these annual meetings).

6. Improved cost accounting systems, to allow for more accurate pricing and bidding. This is a common need, especially for TECs that previously manufactured bulk, standardized orders, but now have to produce much smaller, customized lots (Zurawicki and Becker 1994). LET, for instance, previously supplied most of its 80 annually produced aircraft to Russia’s Aeroflot in one configuration, but now needs to customize aircraft configurations, in much smaller quantities, to its new customers (LET Team Report 1994). Improved cost accounting systems are also of great importance in situations where capacity utilization is low, requiring a careful application of overhead cost allocations. In the case of the Polish Ahlstrom-Fakop firm, for example, the

majority of its costs were fixed, so that overhead rates would fall dramatically as output rose. Because the company was operating under full capacity; however, the overhead rate used in pricing its competitive bids was high, leading to overpriced bids (Ahlstrom-Fakop Team Report 1994).

In many cases, overhead expenses are applied to product costs primarily on the basis of direct labor costs as a proportion of total direct labor hours. When plants are underutilized, this leads to the few individual products that get produced receiving a very heavy overhead allocation, leading to the setting of non-competitive prices under the frequently-followed “cost-plus” pricing guidelines. TECs in such situations often need basic training in the need to break down costs into fixed and variable costs, and need to be trained in the principle that any contribution to meeting fixed costs, via low prices that exceed variable costs but not full costs, are preferable to a situation where high full-cost based prices lead to no sales at all (Avrora and Ahlstrom-Fakop Team Reports 1995). Further, raw material costs often have no or unrealistically low provisions for wastage.

7. Systems and skills in customer satisfaction measurement and diagnosis, including a willingness to put long-term customer satisfaction needs above short-term sales and profit goals (Centertel Team Report 1995).

8. Setting up of appropriate marketing organizational structures, marketing information systems, and a marketing culture that promotes cooperation across sales, marketing, production, logistics and other divisions. “Marketing Orientation” has been conceptualized by Narver and Slater (1990) as a combination of customer orientation, competitive orientation, and interfunctional coordination. Research has shown that while many TECs have official marketing departments, and claim to be both customer and competitor oriented (Golden et al 1995), they often do not display adequate communication across departments such as marketing, sales, production, and logistics (Shipley et al. 1995). This has been borne out in WDI’s experiences with several companies.

9. Training in communications planning and implementation, and brand-building, including the creation of brochures, promotions, advertising, public relations, and database marketing. Some of the needs facing these TECs is very basic: Avrora, for example, needed a dedicated phone line for an English-speaking sales representative, “open” during Western business hours, as

well as basic skills in producing press releases, catalogs, and trade journal advertisements (Avrora Team Report 1995). Training in public relations skills is especially valuable for TECs, given their extremely low marketing communication budgets. Glasunion, for instance, because of its severe cash crunch, had to reduce its marketing expenditures and activities to almost zero, and was unable to revise its leaflets and brochures for over six years (Glasunion Team Report 1995).

Avrora, along with other TECs like LET, also needed training in the creation and management of customer and prospect databases, to allow for databased marketing efforts using direct mail, etc. Such databased marketing efforts are especially important for companies where after-market sales opportunities are significant, such as Dong Feng Motors, or appliance manufacturer Whirlpool (various Team Reports). Direct Mail is especially useful for TECs because it typically requires low “fixed cost” investments (unlike media advertising). Such TECs obviously also need to be exposed to affordable and accessible sources of market, competitive and prospect information that could then be input into the database.

10. New Product Development and Value-engineering. Historically, most product development at TECs has occurred without adequate consumer input. For example, Russia’s Avrora developed its ozone-producing “ozonizer” device (for use in factory environments where it seems necessary to clean the air that workers breathe) with very little feedback from the market, leading to poor subsequent sales (Avrora Team Report 1995).

11. Low-cost or “guerrilla” marketing. The budget constraints facing most TECs has been mentioned earlier, and this naturally requires that they innovate in low-cost ways of out-competing their marketing adversaries. For example, companies like Glasunion have been unable to allocate any money to formal market research, but instead have been forced to rely on informal methods, such as its conversations with wholesalers, for information about market and competitive conditions (Glasunion Team Report 1994).

Suggestion for Future Research

While there are undoubtedly numerous topics on the subject of marketing in transitional economies that require research attention -- such as the creation and management of distribution channels, or the appropriate strategies and tactics for global versus local brands -- one issue appears to be especially deserving of further research. This is the issue of the likely evolutionary

path of these TE markets. How can the different TE markets, as they exist today, be placed on one (or more) dimensions of market evolution? How are they likely to evolve in the future? Will the TE markets necessarily grow as today's developed markets have historically done, or will they develop in some unique ways, blending traditional characteristics with "modern" ones, and leapfrogging some of the "traditional" stages of development? Answers to this question can be of use not only to theory-builders in marketing but also to practitioners, as they plan marketing strategies for the exciting years ahead.

Conclusion

The "opening up" of fast-growing TE markets presents great challenges and opportunities to both domestic TE enterprises as well as newly-entering MNC competitors. Faced with consumers who are rapidly changing in their expectations, incomes and levels of knowledge, as well as business conditions that are difficult to operate in but also provide opportunities for market-winning innovation, these competitors are "pioneers" in the true sense of the word. How these markets will evolve, and which kinds of marketing strategies and tactics will prove to be the most appropriate as they grow, is consequently of great interest today. This paper has attempted to document the nature of this evolution-in progress, and discuss some of the consequent marketing strategic and tactical issues, as gleaned not only from the existing literature but also from the field research of the William Davidson Institute. It is hoped that the perspective provided by this paper will be of use to both the scholarly and managerial communities in marketing.

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Table 1
Selected Macro-Economic Statistics on Transitional and Other Economies

	China	Vietnam	Czech Republic	Poland	Hungary	Slovakia	Romania	Russia	India	Brazil	USA
Per Capita GNP 1994 (USD) ¹	\$530	\$190	\$3,210	\$2,470	\$3,840	\$2,230	\$1,230	\$2,650	\$310	\$3,370	\$25,860
Per Capita GNP adjusted for Purchasing Power Parity 1994 (USD) ¹	\$2,510	\$1,010	\$7,910	\$5,380	\$6,310	\$6,660	\$2,920	\$5,260	\$1,290	\$5,630	\$25,860
Unemployment Rate ² (1994)	2.7%*	20.00%	4.95%	14.8% ¹⁹⁹⁵	10.40%	14.60%	10.90%	7.10%	NA	4.9% ¹⁹⁹³	5.5% ¹⁹⁹⁵
GDP Growth Rate (1995/1994) ³	11.6% ¹⁹⁹⁴	8.8% ¹⁹⁹⁴	4.80%	7.00%	1.50%	7.40%	6.90%	-4.00%	6.30%	4.20%	2.00%
Pure Inflation Rate (1995) ³	24.1% ¹⁹⁹⁴	14.4% ¹⁹⁹⁴	9.10%	26.80%	28.20%	9.90%	32.30%	198.00%	10.40%	73.80%	2.80%
Adult (>15yrs) Literacy Rate ^{4***}	73.00%	88.00%	99.00%	99.00%	99.00%	99.00%	97.00%	98.00%	52%**	81.00%	>95%
% of GDP from Agricultural Sector (1994) ³	20.50%	27.2% ¹⁹⁹⁵	5.80%	6.20%	7.30%	5.30%	19.60%	6.30%	31.80%	14.20%	1.7% ¹⁹⁹³
Life Expectancy-Male (in years) ²	67.09	63.66	69.87	69.15	67.94	69.15	69.31	64.10	58.50	56.57	72.80
Life Expectancy-Female (in years) ²	69.18	67.91	77.41	77.33	76.06	77.57	75.35	74.35	59.61	67.62	79.70
Infant Mortality (per 1000 live births) ⁴	30.00	41.00	9.00	15.00	15.00	12.00	23.00	21.00	80.00	57.00	9.00
% of GDP from privately-owned sector ⁵	> 50%	70.00%	65.00%	55.00%	55.00%	55.00%	35.00%	50.00%	NA	NA	87.70%
Kilometers of highways per 1000 persons ²	0.86	1.14	5.35	9.46	15.38	3.25	19.91	6.23	1.03	10.39	23.66
Cars Per 1000 persons (1993) ⁶	1.90	0.90	190.70	169.60	188.40	190.70	70 (est.)	62 (est.)	3.60	72.60	564.60
Telephone Mainlines Per 1000 persons (1992) ⁴	10.00	2.00	176.00	103.00	125.00	167.00	113.00	154.00	8.00	71.00	565.00

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*In Urban areas(1994);substantial underemployment **Over age 7 can read and write

***Literacy Rate is same for both men and women, except China (Male=87%, Female=67%),

Vietnam(Male=93%, Female=83%), and India(Male=64%,Female=39%)

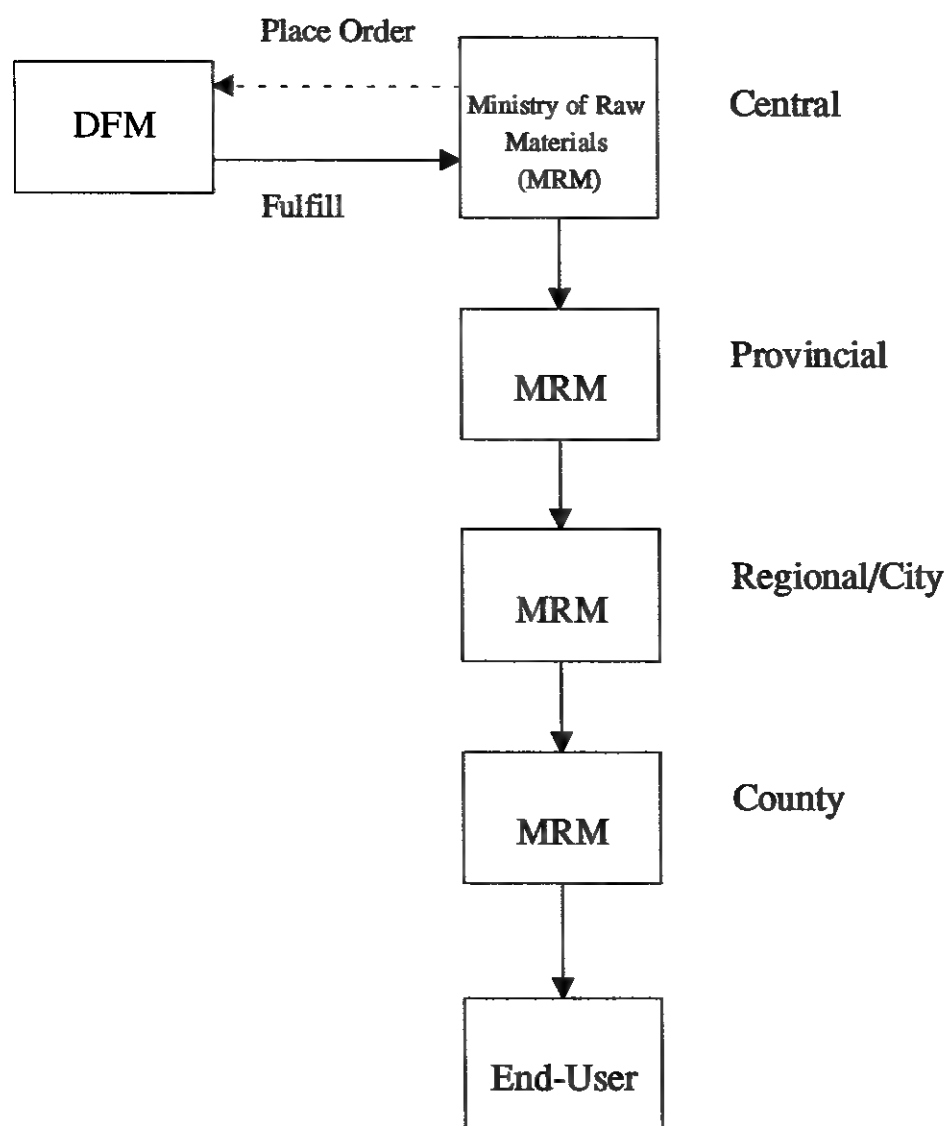
Table 2
Selected Marketing Statistics on Transitional and Other Economies

	China	Vietnam	Czech Republic	Poland	Hungary	Slovakia	Romania	Russia	India	Brazil	USA
# Households (1994, in thousands) ¹	285,135	15,524	3,338	11,450	3,955	1,832	7,610	5,210	182,496	37,565	97,311
Growth in # of Households (1994/1993) ¹	1.08%	1.57%	0.06%	0.78%	1.15%	1.05%	1.01%	-0.04%	2.23%	1.79%	0.86%
Population Growth Rate (1995/1994) ²	1.04%	1.71%	0.26%	0.36%	.02%(est)	0.54%	0.09%	0.20%	1.77%(est)	1.22%	1.02%(est)
Population Distribution ² :											
% <15 years	26%	36%	19%	23%	18%	23%	21%	22%	35%	31%	22%
% age 15-64	67%	59%	68%	66%	68%	66%	67%	66%	61%	64%	65%
% age 65 or older	7%	5%	13%	11%	14%	11%	12%	12%	4%	5%	13%
% Households with TVs ¹ (1993)	80%1994	14% ¹⁹⁸⁴	98%	98%	99%	99%	95%	98%	19% ¹⁹⁸⁴	89.9% ¹⁹⁹²	97% ¹⁹⁸⁴

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International Marketing Data and Statistics 1996, Euromonitor International Inc.

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Figure 1**DFM's Distribution System Under the Planned Economy**

Source: Dong Feng Motor Corporation Team Report 1994

Figure 2
THE WEALTH EFFECT

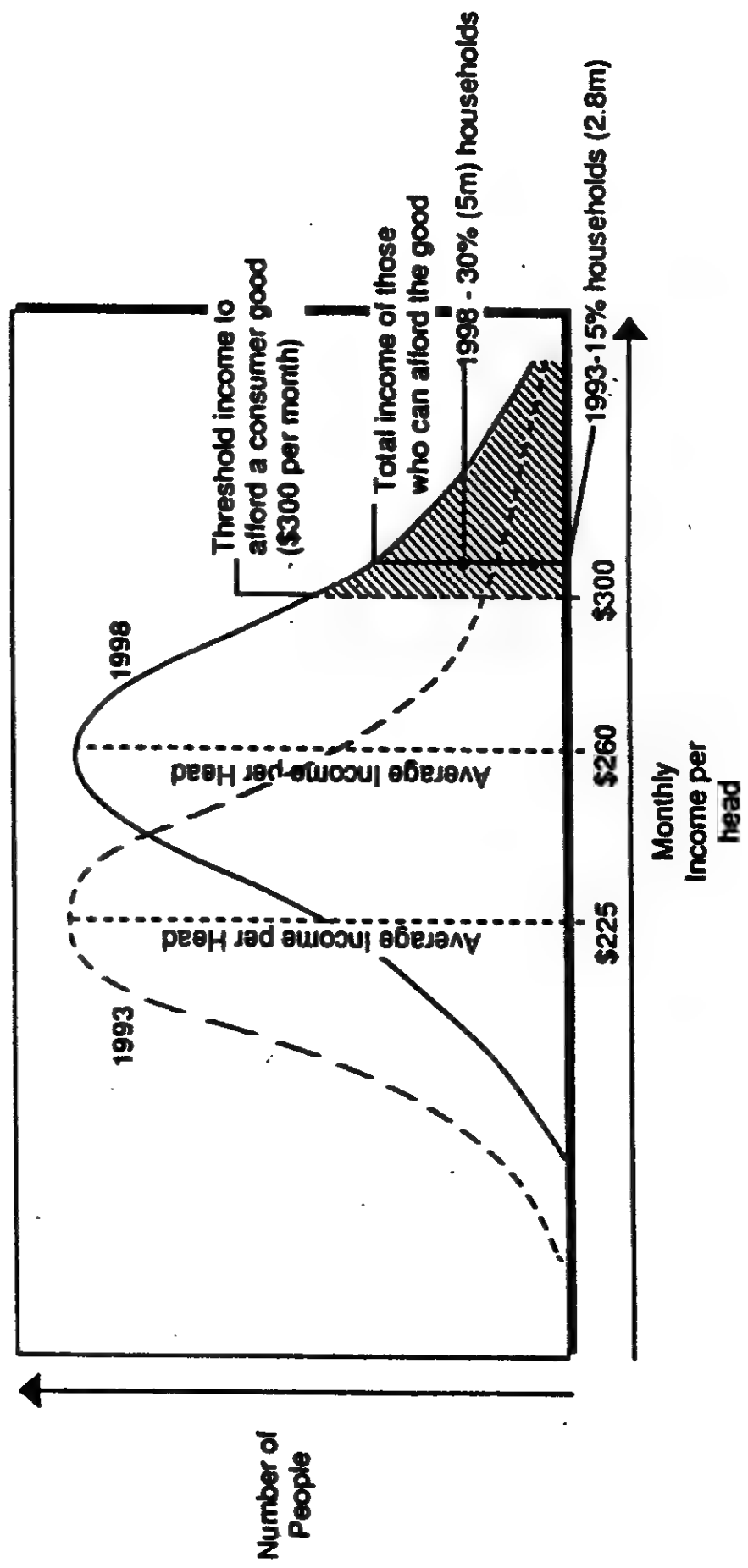
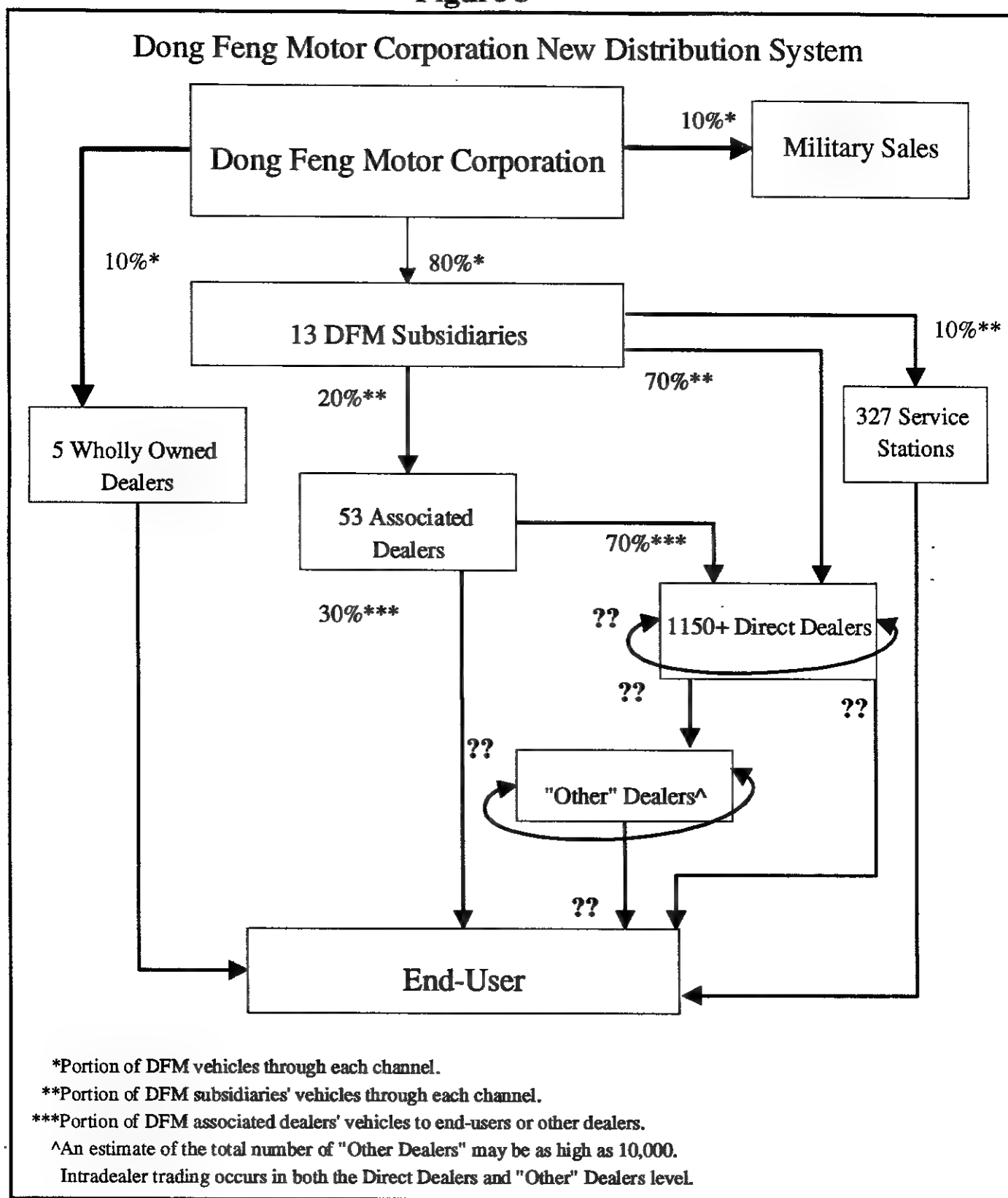


Figure 3



Source: Dong Feng Motor Corporation Team Report 1994

Appendix

Company Backgrounds of WDI-affiliated Firms

AT&T Qingdao (AT&T QD) is a joint venture with several Chinese partners, and was set up in 1993 as a semi-knockdown (SKD) operation to sell and install telephone network switched in China. A full complete knockdown (CKD) production facility should be in operation by the end of 1996. Its SESS network switch is technically extremely complex, and consists of numerous pieces of hardware and complex software which send and administer data and voice information. Such products are sold to provincial Post and Telecommunications Bureaus, which select vendors through a competitive bidding process (although relationships-- "guanxi"--also matter a great deal). Nine vendors with market shares between 1% and 50% currently compete; AT&T is one of the smaller players.

Avrora is a manufacturer of piezoceramic products based in Volgograd, Russia. Its product line includes piezoceramic elements, buzzers, ignitors and filters. It is a privatized company with the majority of outstanding shares owned by Russian investors. Prior to market reforms, Avrora only operated within the borders of the USSR and the Eastern bloc. Today, the company desperately needs new markets, is operating at very low capacity, is heavily in debt, and faces a cash flow crisis every month (despite having laid off 75% of its workforce over the last three years).

Centertel is a joint venture between TP S.A. (51% ownership), a state-owned Polish telecommunications company, Ameritech (24.5%), and France Telecom (24.5%). Centertel is the first mobile phone operator in Poland. Since its inception in 1991, Centertel has made great inroads to provide communications service throughout the

country. Currently with 80% coverage (excluding remote areas), the company hopes to achieve 100% coverage by the end of 1996 and expects to have over 100,000 subscribers by the end of July. The Customer Service Department is critical in creating and maintaining the company's image within the competitive environment. As a result of the increase in competition in the Polish telecommunications industry, the company views a high standard of customer care as a strategic priority.

China Hewlett-Packard is responsible for overall sales and support for Hewlett Packard products in China. Hewlett-Packard Company (HP), the third largest computer manufacturer in the United States, first opened operations in China in 1985. Since then it has invested more than \$100 million in the country. It has joint-manufacturing sites in Shenzhen, Beijing, Qingdao, and Shanghai. China Hewlett-Packard was formed in 1985 as a joint venture with China Electronics Import and Export Corp., China Great Wall Computer Group, and Beijing Computer Industry Company. HP established another joint venture in 1991 in Qingdao for medical-equipment manufacturing (HP Medical Product Co., Ltd.), and another in Beijing for sales and marketing systems integration (Puritan Integration Co., Ltd.).

Dong Feng Motors (DFM) is the largest producer of medium sized trucks in China. In 1994, the company was 100% state owned. They produce mainly medium-duty five-ton trucks for the Chinese market. DFM is diversifying its product line to include buses, an eight-ton truck and a passenger car to adapt to the changing market.

Foster Wheeler Energy Fakop was formed in 1995 when Foster Wheeler Energy International, Inc. purchased Ahlstrom Fakop Ltd., the oldest boiler manufacturer in

Poland, from the Ahlstrom Corporation. Foster Wheeler Energy Fakop manufactures large industrial boiler components and heat exchangers in Katowice, Poland, and is working to establish itself as the low cost supplier of large industrial boilers in the Central European market.

Glasunion Kft. is a glass processing company located in Salgótarján, Hungary. The company used to produce three types of processed glass (laminated, double glazed and tempered), but has shut down its flat glass production. The company is a designated supplier to the Suzuki automotive plant in Hungary.

Interbrands is the sole distributor of Procter & Gamble products in Romania and Bulgaria. Interbrands also distributes MARS and Kellogg's products, although P&G makes up more than half of its business.

LET a.s., the largest aircraft manufacturer in the Czech Republic, is headquartered in Kunovice. In the Fall of 1995, LET a.s. became the first company in the Czech Republic to have its debt restructured. This was made possible by a change in restructuring policies at Komerční Bank, a privatized Czech bank, and has given the company a new opportunity to revive its lagging sales and profitability. They recently won an order for twenty-one L410's (a small aircraft) for delivery in July 1996 and discussions are underway with an American computer-aided design company regarding a possible joint venture to develop CAD/CAM products.

Tatra is the Czech Republic's oldest truck company and is located in Kopřivnice, which is 150 miles east of Prague. They chiefly manufacture off-road trucks over 12 tons with air cooled engines. Tatra trucks are known for their performance in severe climactic

regions and are mainly used for oil and gas production, construction, power stations, mining operations and military uses.

E. Wedel S.A., located in Warsaw, is a famous brand name in the Polish confectionery business, established over 150 years ago. It produces high-quality chocolates, cakes, and snacks. In 1991, Pepsico Foods and Beverages International acquired 65% of E. Wedel S.A. shares.

Whirlpool Corporation is the world's leading manufacturer and marketer of major home appliances. With over 45,000 employees, manufacturing facilities in 12 countries and products for sale in approximately 140 nations, the corporation is aggressively pursuing the goal of becoming the dominant force in the global major home appliance industry. In accordance with this strategy, Whirlpool Europe BV (WEBV), one of the four major divisions of the Whirlpool Corporation, is quickly moving into Central and Eastern Europe. One of the National Organizations (NSOs) is headquartered in Budapest, and is spearheading the development of two new NSOs in Romania and Bulgaria. In Slovakia, Whirlpool Tatramat, a manufacturer of both washing machines and water heaters, was incorporated as a joint venture company in May 1992. WEBV purchased a minority interest in Tatramat a.s. from the government during the first round of coupon privatization. In early 1995, Whirlpool Corporation joined forces with Beijing Whirlpool Snowflake Electric Appliance Company, Ltd., a refrigerator manufacturer; SMC Microwave Products Company in Shunde, a microwave manufacturer; and Shanghai Narcissus, a washer and compressor manufacturer.